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Exhibit Number	: DRA - 5
Commissioner	: Simon
ALJ	: Wong
Witness	: Greig
	:



DIVISION OF RATEPAYER ADVOCATES CALIFORNIA PUBLIC UTILITIES COMMISSION

DRA Report on the Application of San Diego Gas & Electric and Southern California Gas Company Biennial Cost Allocation Proceeding Phase II

Balancing Account Treatment, Core Rate Design Policy, Regulatory Account Allocation Methodology, and Other

> San Francisco, California November 21, 2008

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QUALIFICATIONS OF JACQUELINE GREIG

1 I. INTRODUCTION AND SUMMARY

2	This e	xhibit presents the Division of Ratepayer Advocates' (DRA's)		
3	recommenda	tions regarding San Diego Gas & Electric Company's (SDG&E's) and		
4	Southern Cal	ifornia Gas Company's (SoCalGas') proposal to continue 100%		
5	balancing account treatment, various core rate design policies, and the proposed			
6	allocation of	the following four accounts: Company-Use Fuel for Load Balancing		
7	Account (CU	LFBA), Blythe Operational Flow Requirement Memorandum Account		
8	(BOFORMA)	, Firm Access & Storage Rights Memorandum Account (FARSMA), and		
9	Otay Mesa S	ystem Reliability Memorandum Account (OMSRMA).		
10	The f	following summarizes DRA's recommendations in this exhibit:		
11	1.	SoCalGas and SDG&E should be subject to a minimal level of		
12		transportation revenue risk to ensure that rates are developed		
13		appropriately and to ensure that discounted transportation contracts		
14		are negotiated only when necessary to prevent bypass. DRA		
15		recommends a 90/10 risk sharing structure with shareholders only		
16		absorbing 10% of the risk and rewards.		
17				
18	2.	SoCalGas and SDG&E should use a 4 year average for the		
19		Unaccounted For (UAF) Gas percentage resulting in .84% for		
20		SoCalGas and 1.04% for SDG&E.		
21				
22	3.	SDG&E should continue to use an equal cents per therm (ECPT)		
23		allocation methodology for core and noncore UAF cost allocation.		
24				
25	4.	DRA does not oppose the SDG&E proposed Borrego Springs LNG		
26		rate. However, DRA opposes the elimination of the existing		
27		requirement that the Borrego Springs combined LNG and electric bill		
28		not exceed the Borrego Springs all-electric bill.		
29				

2	5.	customer charge consolidation and elimination of rate seasonality for
3		both SoCalGas and SDG&E.
4		
5	6.	DRA recommends a more gradual transition of 5% per year for
6		SoCalGas' core deaveraging in contrast to the Utility proposal.
7		
8	7.	DRA opposes the proposed elimination of the gas engine rate cap.
9		
10	8.	DRA recommends an \(ECPT allocation for the following regulatory
11		accounts: CUFLBA, BOFORMA, FARSMA, and OMSRMA.
12 13		6 BALANCING ACCOUNT TREATMENT FOR NONCORE NSPORTATION REVENUES
14	SDG	<u>&E and SoCalGas Position</u>
15	SoCa	alGas and SDG&E recommend that they should not be put at any risk for
16	noncore thro	oughput. In the testimony of Richard M. Morrow, SoCalGas and SDG&E
17	(Utilities) sta	ate that the Commission should recognize that:
18 19 20 21 22 23 24 25 26		A policy that promotes throughput risk cannot be harmonized with policies promoting energy efficiency and infrastructure "slack capacity," there is no strong policy served by placing the Utilities at risk for gas throughput, and the factors that influence EG demand on the utilities' systems are largely influenced by factors outside the utilities control. The Commission therefore should not place the Utilities at risk for noncore throughput. ¹
20 27	DRA	Position
28	DRA	opposes the Utilities' proposal for 100% balancing account treatment fo
29	noncore trai	nsportation revenues. DRA recommends a modest level of noncore
30	throughput i	risk of 10%. While DRA recognizes the Commission's energy efficiency
31	priorities, a	minimal level of risk for shareholders is appropriate to ensure that the

¹ Prepared Testimony of Richard M. Morrow, p.3.

Utilities are not simply developing their rates without any regard for doing what is best for ratepayers, and have proper incentives with respect to their authority for negotiating transportation contracts. A modest level of throughput risk assures an equitable balance for ratepayer and shareholder interests. DRA is concerned that absent a stake in the outcome, the Utilities will focus their attention solely on the areas where they can make money, i.e. the storage and hub services, to the detriment of ratepayers.

DRA also notes that PG&E is currently under a 100% backbone transmission risk/reward structure that has been in place since the Gas Accord was first implemented pursuant to D.97-08-055. Most recently, in D.07-09-045 (Gas Accord IV proceeding), the Commission adopted a Settlement that continues the Gas Accord market structure for PG&E for another three years and maintains the PG&E shareholder 100 percent risk/reward allocation for noncore transmission costs. Under the "Gas Accord," PG&E has absorbed all throughput risk for the past 10 years and there is no evidence that either PG&E shareholders or ratepayers have suffered adverse consequences from the 100% at-risk structure. Further, there is no evidence that PG&E's energy efficiency program benefits have been negatively impacted relative to SoCalGas's energy efficiency benefits under a 100% balancing account structure. DRA sees no compelling reason why the Utilities should be relieved of all risk while PG&E has continued to shoulder 100% of throughput risk.

In D.02-12-017 the Commission approved the current 100 percent balancing account treatment for SoCalGas and SDG&E on an interim basis until a decision in the next BCAP. The Commission also concluded that "This 100 percent balancing treatment will not set a precedent for or against whatever the Commission shall adopt in the next BCAP." Prior to this interim decision, SoCalGas and SDG&E were at risk for 25% of noncore throughput risk under a 75/25 sharing structure adopted in the last BCAP D.00-04-060.

EEGA Energy Efficiency Program Reports 2006 – 2008.

³ D.02-12-017, Conclusion of Law #2.

1	DRA recommends that the Commission reject SoCalGas and SDG&E's					
2	proposal for 100 percent balancing account treatment. The Utilities should be					
3	subject to at least a modest level of risk associated with noncore transmission costs.					
4	DRA reco	mmends a 90	0/10 (ratepa	yer/sharehold	ler) sharing struc	ture with
5	shareholders absorbing only 10 percent of the risk.					
6	III. SC	CALGAS A	ND SDG&	E UNACCO	UNTED FOR G	AS (UAF)
7		CalGas and S				(3) /
8					ng a three year av	verage (2004 –
9					nd .87% for SDG	.
10	,				ations to core and	
11	customers	s: <u>4</u>				
12						
13			r	Гable 1		
14	SoCalGas and SDG&E UAF Annual Percentages					
		Utility	2004	2005 2	006 Averag	<u>;e</u>
		SoCalGas	.97	.93	73 .88	
		SDG&E	.45	.95 1	.27 .87	
15				<u> </u>		
16						
17						
18				Table 2		
19		SoCalGa	s and SDG&	kE Proposed U	JAF Allocation F	actors
			Utility	Core UAF	Noncore UAF	1
				Allocation	Allocation	

SoCalGas

SDG&E

20

71%

77%

29%

23%

DRA Position

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2 While DRA does not oppose the proposed UAF core/noncore allocations for 3 SoCalGas, it opposes the proposed UAF allocation for SDG&E's core and noncore 4 customers. The Utilities note that the proposed UAF allocations for SoCalGas and 5 SDG&E are based on a 2006 update to a 1991 SoCalGas UAF Study. Further, the Applicants state, "There is no companion study of SDG&E's LUAF gas which 6 7 matches the SoCalGas 1991 study in detail and scope. As such SDG&E's LUAF gas allocations for year 2006 constitute a derivative of SoCalGas' study results." 6 8 9 Since there is no specific UAF study for SDG&E, DRA recommends that SDG&E 10 continue to use the current ECPT methodology to allocate the UAF to the core and 11 noncore classes. Further, the Utilities provided updated UAF data for 2007 and the 12 UAF for SDG&E inexplicably continues to increase since 2004. The SDG&E UAF 13 percentage for 2007 is 1.5% as compared to .45%, .95%, and 1.27% in 2004, 2005, and 2006 respectively. The 1991 UAF Study was specific to SoCalGas and given 14 15 the absence of a utility-specific study for SDG&E to support a different allocation 16 methodology and explain the UAF increases, DRA maintains that the current ECPT 17 methodology is equitable and more appropriate.

IV. SDG&E CORE RATE DESIGN PROPOSALS

A. Liquefied Natural Gas Service Rates to Borrego Springs

SDG&E Proposal

SDG&E provides liquefied natural gas (LNG) service to approximately 310 customers who are residents of the Roadrunner Home Park in the desert community of Borrego Springs. SDG&E proposes to retain the Commission-approved rates from the 1999 BCAP. However, retaining the 1999 BCAP

⁽continued from previous page)

Phase II Testimony of Herbert Emmrich, p. 15.

⁵ Id. ,p. 15

⁶ Testimony of Hebert Emmrich, Attachment 1, p. 4.

⁷ Response to DRA Data Request JNM-09.

- rates will cause the average combined LNG and electric bill to violate the
- 2 Commission requirement that the combined LNG and electric bill not exceed
- 3 the average Borrego Springs area all-electric bill. SDG&E is recommending
- 4 that the Commission eliminate the requirement that the average combined
- 5 LNG and electric bill not exceed the average Borrego Springs area all-electric
- 6 bill.

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DRA Position

8 DRA opposes SDG&E's proposal to eliminate the requirement for the

9 average combined LNG and electric bill to not exceed the average Borrego

Springs area all-electric bill. The last time this issue was litigated was in the

1997 SoCalGas/SDG&E BCAP which resulted in Decision (D.) 97-04-082.

12 D.97-04-082 provides historical context noting that SDG&E initiated LNG

service as a pilot test in 1968 and recruited a total of 31 large customers and

communities including the Borrego Springs Roadrunner mobilehome park.

15 The service was not successful and SDG&E terminated service to all but the

Roadrunner Club in Borrego Springs. D. 97-04-082 notes that in D.90-11-

17 023 (SDG&E's 1990 cost allocation proceeding), "the Commission said it

would "...not approve rates that would increase the Roadrunners' average

19 combined LNG and electric bill to exceed the average Borrego Springs all-

20 electric bill" and in D.91-12-075 the Commission reaffirmed its position.

21 D.97-04-0082 approved a Joint Recommendation signed by SDG&E, ORA

and the Roadrunner Club which resulted in a 4% reduction to SDG&E's

existing Average Full Service LNG rate.

DRA recommends that the Commission reject SDG&E's proposal to

25 eliminate the LNG rate requirement for the Borrego Springs area. The

26 existing LNG rate that was approved in the 1999 BCAP is approximately 10%

⁸ D.97-12-082, p. 166.

- 1 higher than what the Borrego Springs customers would pay under the
- 2 requirement that the rate not exceed the all-electric rate. SDG&E provided
- 3 DRA information that the average all-electric monthly bill for Borrego Springs
- 4 customers is \$111.62, while the average combined LNG and electric bill is
- 5 \$122.54. DRA does not oppose SDG&E's proposal to maintain the existing
- 6 Borrego Springs rate. However, DRA does oppose eliminating the
- 7 requirement. While the Borrego Springs LNG rate could be an exception to
- 8 the requirement in this BCAP, the Utilities have provided no compelling
- 9 reasons to eliminate the requirement for the future. This is similar to the last
- 10 BCAP which authorized the existing Borrego Springs LNG rate without
- 11 eliminating the requirement.

B. Core Commercial and Industrial Rates

SDG&E Position

SDG&E's current core commercial and industrial (C&I) rate design consists of three tiers of customer charges and seasonal three-tiered declining block volumetric rates. ¹⁰ SDG&E is proposing to consolidate the existing three levels of customer charges, \$5.58 per month for Tier 1, \$11.16 per month for Tier 2, and \$111.61 for Tier 3, into a single customer charge of \$10. SDG&E states that there are two main reasons for the change. One reason is simplicity and the second reason is that "the current tiered volumetric rate structure, in tandem with a single customer charge, continues to provide a similar "cost-based" price signal as does the current rate structure with multiple customer charges." ¹¹

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 $[\]frac{10}{11}$ Testimony of Jason Bonnett dated July 2, 2008, p. 8-9. $\frac{11}{10}$ Id. p. 9.

SGD&E also proposes to "simplify" core C&I rates by eliminating the seasonal difference in rates, asserting that "a single set of declining block rates is easier for the customer to understand." 12

DRA Position

DRA opposes SDG&E's recommendation to consolidate the core commercial and industrial customer charges. Tier 1 customers who represent approximately 88% 13 of core C&I customers would bear a 79% increase in their customer charge, while Tier II customers would receive a 12% decrease, and Tier III customers, the highest use customers would receive a reduction to their customer charge of 91%. The proposed consolidation would mostly adversely impact Tier I customers, while resulting in a modest decrease to Tier II, and a huge decrease for Tier III. Thus, the big customers would benefit at the expense of the small customers. In response to a DRA Data Request, SDG&E provided a bill analysis of the impacts associated with this proposal. The results confirm that the lowest usage customers (under 500 therms per month) would see a bill increase under the proposed customer charge consolidation. 14 Simplicity and having a tiered volumetric rate structure are not meritorious reasons for consolidating the customers charges to the detriment of Tier I customers.

SDG&E notes that "a larger meter and regulatory set may require more sophisticated meter reading and maintenance relative to a smaller end-use customer. This would result in a higher fixed charge to a larger-use customer than a smaller-use customer." Yet, SDG&E is proposing to have the same

¹² Id., 10.

¹³ SDG&E Response to DRA Data Request JNM-09, Q.1 excel spreadsheet.

 $[\]frac{14}{1}$ Response to DRA Data Request JNM – 10, Q.1, Chart 2.

¹⁵ Id. p. 9.

- 1 customer charge for each of the three tiers. SDG&E's proposal for a single
- 2 customer charge in inequitable and would unfairly burden Tier I customers.
- 3 DRA recommends that the SDG&E's customer consolidation proposal be
- 4 rejected and the current core commercial and industrial rate design structure
- 5 be maintained.
- 6 DRA also opposes SDG&E's proposal to eliminate the seasonal
- 7 difference in rates. SDG&E provided no analytical justification or support, for
- 8 eliminating the seasonality in rates other than to state that a single set of
- 9 declining block rates would be easier for the customer to understand. 46 With
- 10 no bill or rate analysis to assess the impacts of this proposal on customers.
- DRA recommend that the Commission reject SDG&E's proposals to
- 12 consolidiate customer charges and eliminate the seasonality currently in C&I
- rates. DRA recommends no rate design changes to SDG&E's core C&I rates.

14 C. Core Deaveraging

- 15 <u>SDG&E Position</u>
- SDG&E proposes that residential and core C&I rates be 100%
- deaveraged by the end of the 3 year cost allocation period. SDG&E's core
- rates are currently 85% deaveraged. SDG&E proposes to phase the
- remaining core deaveraging at approximately 5% per year to achieve 90.1%,
- 20 95.1%, and 100% deaveraging in Year 1, Year 2, and Year 3, respectively.
- 21 SDG&E states that the adjustments will be phased in rather than implemented
- in a single year in order to maintain rate stability and less volatility in the
- 23 residential and core C&I rates.
- 24 <u>DRA Position</u>
- DRA does not oppose SDG&E's proposal to fully deaverage core rates.

¹⁶ Id., p. 10.

2	A. Proposal to Deaverage Core Rates
3	SoCalGas Position
4	SoCalGas proposes to completely deaverage residential core and core
5	C&I rates by the end of the proposed 3 year allocation period. Currently, core
6	rates are 75% deaveraged. SoCalGas proposes to phase in full deaveraging
7	as follows: 17
8	Year 1 83.3% deaveraged
9	 Year 2 91.7% deaveraged
10	 Year 3 100% deaveraged
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12	DRA Position
13	DRA opposes SoCalGas' proposal to implement full core deaveraging
14	over the three year cost allocation period. DRA recommends a more gradual
15	deaveraging of 5% per each of the 3 allocation years as follows:
16	Year 1 80% deaveraged
17	 Year 2 85% deaveraged
18	 Year 3 90% deaveraged
19	This level of deaveraging would be consistent with SDG&E's proposal to
20	deaverage approximately 5% per year, as supported by DRA in this
21	testimony. It is also consistent with SDG&E's efforts to provide rate stability
22	and less volatility in core rates. While SoCalGas asserts that it too seeks rate
23	stability and less volatility, its deaveraging proposal would result in less
24	stability, as opposed to a more moderate approach as recommended by DRA
25	and consistent with the SDG&E approach. DRA recommends that SoCalGas
26	core deaveraging proposal be rejected and instead the Commission should
	Testimony of Gary Lenart dated July 2, 2008, p. 9.

SOCALGAS CORE RATE DESIGN PROPOSALS

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V.

- adopt DRA's more moderate proposal of 5% per each of the 3 allocation
- 2 years. Full deaveraging of the remaining 10% can be considered in the next
- 3 BCAP.

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B. Core C&I Rates

SoCalGas Position

SoCalGas' current core commercial rate design consists of two tiers of customer charges and three tiers of declining block volumetric rates.

8 SoCalGas is proposing two changes to the core C&I rate design and a

methodology change to the tier cost allocation to each tier. First, SoCalGas is

proposing to consolidate its current two customer charges of \$10 (for

customers with annual usage less than 1,000 therms/year) and \$15 (for

customers exceeding 1,000 therms/year) per month to a single customer

charge of \$15 per month. Second, SoCalGas is proposing to remove the

seasonality in the tier 1 usage thresholds. Currently tier 1 rates apply to the

15 first 100 therms per month in the summer and the first 250 therms used during

the winter. SoCalGas is proposing to maintain a constant tier 1 threshold up to

250 therms per month year round. Lastly, SoCalGas proposes a new tier

allocation methodology which maintains the existing differentials among rate

tiers, as opposed to the current methodology which divides the customer

class into usage bands, and then allocates costs to each band.

DRA Position

DRA opposes SoCalGas' proposal to consolidate its two C&I customer

23 charges. Lower usage customers who consume less than 1,000 therms/year

would be burdened with a 50% increase in the monthly customer charge,

25 simply for what SoCalGas characterizes as "rate simplicity". 19 In response to

¹⁸ SoCalGas Testimony of Gary Lenart dated July 2, 2008, p. 11. 19 Id.. p. 10.

- a DRA Data Request, SDG&E provided a bill analysis of the impacts
- 2 associated with this proposal. The results confirm that the lowest usage
- 3 customers (under 250 therms per month) would see a bill increase under the
- 4 proposed customer charge consolidation. SoCalGas' justification has no
- 5 merit. DRA recommends no changes to the existing customer charges.

6 DRA also opposes SoCalGas' proposal to remove the existing rate

7 seasonality applicable to core C&I rates. SoCalGas relies solely on the

8 rationale that seasonality would be removed for "rate simplicity," but provides

- no analysis on the impacts on customers of this change. 21 DRA recommends
- that the Commission reject SoCalGas' proposal to remove seasonality from
- 11 core C&I rates.

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C. Gas Engine Rates

13 SoCalGas Position

SoCalGas proposes to remove the existing cap on the engine rate stating that "the proposed rate will not result in a significant difference from current rates, and therefore a rate cap is not required."

DRA Position

DRA opposes SoCalGas' proposal to remove the rate cap for customers taking service under the G-EN tariff for core gas engine service for water pumping. In this current BCAP, SoCalGas' proposed G-EN rate of \$.0895/therm is slightly lower than the current rate of \$.0903/therm. The

current gas engine rate cap is 1216/therm and therefore, the rate cap is

Response to DRA Data Request JNM – 10, Q.2.

²¹ In response to DRA Data Request JNM 6, Question 4, SoCalGas stated that "No such studies were performed because the rate impact of proposed change from 100 therms/month, for the summer months, was not deemed sufficient to require such analysis."

²² SDG&E and SoCalGas Response to DRA DR JNM6, Q.6.

²³ SDG&E/SoCalGas Response to DRA DR #9, Question.2.

- 1 not triggered. SoCalGas explains that the cap is not required in this BCAP as
- the proposed rate is not significantly different from the current rate. While the
- 3 cap is not triggered by either the current or the proposed rates, it would be
- 4 exceeded under SoCalGas' LRMC compliance case. SoCalGas provided no
- 5 rationale for why the rate cap should be eliminated. Instead, SoCalGas simply
- 6 states that the cap will not be necessary in subsequent cost allocation
- 7 proceedings. There is no evidence to support the elimination of the gas
- 8 engine rate cap and DRA recommends that it be maintained.

VI. SOCALGAS PROPOSAL TO SEASONALIZE THE BASE MARGIN PORTION OF THE CFCA

A. SoCalGas Position

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In its testimony, SoCalGas states that "Beginning in January 1, 2009, instead of recording 1/12 of the authorized margin on a monthly basis in the CFCA, SoCalGas proposes to seasonalize the authorized margin based on the proposed core demand forecast as described in the testimony of Mr. Emmrich. This change will provide a more consistent comparison between revenues and costs recorded in the CFCA similar to the authorized seasonality of revenues and costs recorded in the Noncore Fixed Cost Account (NFCA)" However, if the BCAP is implemented after January 1, 2009 (as will be the case), SoCalGas proposes to implement seasonalizing the authorized margin at the beginning of the subsequent year.

B. <u>DRA Position</u>

DRA opposes SoCalGas' recommendation to seasonalize the authorized margin in the CFCA. The current 1/12 methodology which

Phase II Testimony of S. Nasim Ahmed dated July 2, 2008.

records the authorized margin on a monthly basis is the more equitable and appropriate method. While the collection, recovery, and recording of revenues are seasonal due to higher gas demand in winter months, by contrast the base margin costs for the most part are not incurred by the utility on a seasonal basis and it would be inappropriate and inconsistent to record the costs in a seasonal manner. SoCalGas' rationale that seasonalizing the CFCA would provide a more consistent comparison of revenues and costs is without merit and the proposal should be rejected. The fact that SoCalGas has utilized the current 1/12 method for recording costs for many years further serves to substantiate the reasonableness of this existing methodology.

VII. SOCALGAS NATURAL GAS VEHICLE ACCOUNT (NGVA) PROPOSAL

A. SoCalGas Position

SoCalGas proposes to eliminate the NGVA account and remove the recording of "discretionary" program costs from the NGVA and include the proposed base margin revenue requirement for these program costs and related net revenues in the CFCA. 25

B. DRA Position

DRA does not oppose SoCalGas' proposal to eliminate the NGVA nor does it oppose that current NGV transportation costs and revenues be recorded in the CFCA. However, if any incremental, "discretionary" program costs are authorized in future general rate case (GRC) or other

²⁵ SoCalGas Testimony of S. Nasim Ahmed dated July 2, 2008 p. 15 and 16.

 $[\]frac{26}{100}$ Account eliminations are discussed in DRA's Exhibits DRA-6 and DRA-7 .

1	proceedings, DRA recommends that the allocation of these NGV costs be
2	reconsidered.

VIII. SOCALGAS PROPOSED ALLOCATION METHODOLOGIES FOR FOUR REGULATORY ACCOUNTS

A. SoCalGas Position

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6 The following are SoCalGas' proposed allocations and descriptions of 7 four regulatory accounts:

- 1. Company-Use Fuel for Load Balancing Account (CUFLBA) ECPT SoCalGas proposes to establish this account to balance the difference between actual costs for company-use fuel for load balancing and the related revenues. These costs will no longer be recorded in the Noncore Fixed Cost Account (NFCA) and Enhanced Oil Recovery Account (EORA). 27
- 2. Blythe Operational Flow Requirement Memorandum Account 14 (BOFORMA) - Cold Year Throughput 15 This account was first authorized on October 5, 2003, when the Commission approved SoCalGas Advice Letter 3286 to track certain 18 costs associated with SoCalGas' Gas Acquisition Department's 19 purchase and delivery of gas to sustain operational flows at Blythe. 20 Upon implementation of the SRMA (discussed in item 4 below), SoCalGas will cease recording costs related to minimum flow requirements in the BOFORMA. 28 22
 - 3. Firm Access & Storage Rights Memorandum Account (FARSMA) -Cold Year Throughput

28 Id., p.3 and 4.

SoCalGas Testimony of Witness Ahmed, p. 20.

This account was originally established in D.06-12-031 as the FARMA to record costs incurred to implement a firm tradable access rights structure. D.07-12-019 authorized SoCalGas to expand the FARMA to FASRMA to record reasonable costs associated with establishing and maintaining new postings on the Electronic Bulletin Board (EBB), a secondary market for storage rights, a new fifth nomination cycle, new optional enhanced services, and system expansion projects (plus related third party review).

4. Otay Mesa System Reliability Memorandum Account (OMSRMA) – Cold Year Throughput Pursuant to D.07-05-022, the purpose of this account is to record certain costs associated with the SoCalGas Pipeline System Control and Planning Department's delivery of gas to sustain operational flows at Otay Mesa. D.07-12-019 authorized SoCalGas to establish a SRMA to record costs related to minimum flow requirements for SoCalGas' entire system. Upon implementation of the SRMA, SoCalGas will cease recording entries to the OMSRMA and if there is no activity recorded in the OMSRMA, SoCalGas proposes to

SoCalGas seeks to allocate the costs in the BOFORMA, FARSMA, and OMSMRA by cold year throughput. It states that "these allocation methods are being proposed because of their relationship to the demand of the customer classes. Load balancing is related to the average throughput of

eliminate the OMSRMA 30

²⁹ Id. p. 6. 30 Id, p. 19.

customers while the rest of these accounts are related to periods of high demand that occur during cold years."

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B. DRA Position

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DRA opposes SoCalGas' proposed cold year throughput allocation for the BOFORMA, the FARSMA, and the OMSMRA. According to SoCalGas, a cold year throughput allocation should be used since these accounts are related to periods of high demand. SoCalGas' rationale is flawed. The BOFORMA and OMSMRA are related to ensuring that minimum flow requirements are met for the entire system and have nothing to do with high demand. In fact, they both related to ensuring "minimum" requirements at the Blythe and Otay Mesa delivery points, i.e. the minimum requirements are established for periods when there is not enough demand at these points, not high demand. The FARSMA also is unrelated to high demand. As noted above, this account pertains to costs incurred to implement a firm tradable access rights structure and costs associated with establishing and maintaining new postings on the Electronic Bulletin Board (EBB), a secondary market for storage rights, a new fifth nomination cycle, new optional enhanced services, and system expansion projects (plus related third party review). None of these functions are necessarily related to periods of high system demand. Instead, these functions apply across the board to all customers. DRA recommends that for equity purposes, all four of the above accounts be allocated on an equal cents per therm (ECPT) basis. Further, DRA recommends that when the SRMA is implemented and replaces the FARSMA and the costs are approved for allocation to customers pursuant

³¹ SoCalGas Testimony of Gary Lenart, p. 8.

2	2 methodology.	
3 4 5	IX. SOCALGAS AND SDG&E PROPOSAL TO MODIFY ALLOCATION OF NON CORE FIXED COST ACCOUNT (NCFA) AND CORE FIXED COST ACCOUNT (CFCA)	
6	A. SoCalGas and SDG&E Position	
7	SoCalGas and SDG&E propose to change the allocation of the NFCA	
8	and CFCA balances (i.e. undercollections and overcollections) to reflect	
9	different allocation methods for the base margin and non-base margin	
10	portions of these accounts. 32 Currently, the undercollection and	
11	overcollection of both base margin and non-base margin costs are allocated	
12	on an equal cents per therm (ECPT) basis. SoCalGas and SDG&E propose to	
13	change the allocation of base margin costs and allocate those costs on the	
14	basis of equal percent marginal cost (EPMC), while continuing with the ECPT	
15	allocation for non-base margin costs. The Utilities provide the following	
16	rationale:	
17 18 19 20 21 22 23 24 25 26	This is being proposed because the base margin items that are originally allocated to a customer class are related to the functions required to serve that class rather than the annual volumes transported to that classTherefore, the base margin related portion of the NFCA and CFCA should be allocated on an EPMC, or its equivalent, basis because EPMC represents an allocation of base margin costs to customer classes that has taken into consideration the costs of the different functions required to serve each class. (Lenart Testimony, p. 8)	
27	SoCalGas also states that its proposal should not be implemented until the	
28	second year of the BCAP period because there is a year lag in recording	
29	balances in the base margin and non-base margin related sub-accounts.	

to D.07-12-019, the SRMA should also be allocated using an ECPT $\,$

B. DRA Position

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2	DRA opposes SoCalGas' and SDG&E's proposal to modify the existing
3	allocation of NFCA and CFCA balances. The current allocation methodology
4	of ECPT for all NFCA and CFCA balances is equitable and should be
5	maintained. SoCalGas and SDG&E assert that base margin portion of the
6	NFCA and CFCA balances should be based on an EPMC because EPMC
7	represents an allocation of base margin cost to customer classes which
8	considers the costs of the different functions required to serve each class.
9	What SoCalGas and SDG&E fail to explain is how the NFCA and CFCA
10	balances relate to the different customer classes that are allocated NFCA and
11	CFCA costs. The fact of the matter is that there is no accounting for how the
12	specific customer classes contribute to the CFCA and NFCA balances. The
13	CFCA and NFCA do not have subaccounts for the various customer classes
14	in the core and noncore classes. Thus, when an overcollection or
15	undercollection accumulates, there is no way of knowing which specific
16	customer class (core residential, core commercial, noncore electric
17	generators, noncore industrial etc.) is contributing how much to the balance in
18	the account. This is why the Utilities cannot relate the NFCA and CFCA
19	balances to the different customer classes; and why the ECPT methodology is
20	fair. Every customer within its core or noncore class receives a credit or
21	surcharge based on its throughput. The ECPT methodology is the equitable
22	and should be retained.
23	Allocating the base margin cost portion of the NFCA and CFCA on an
24	EPMC basis as SoCalGas and SDG&E propose would neither result in a

EPMC basis as SoCalGas and SDG&E propose would neither result in a more fair allocation of costs nor would it results in a more cost-based allocation. It would only serve to allocate costs based on the different

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^{(&}lt;u>sco</u>ntinued from previous page)
SoCalGas Testimony of Witness Lenart, p. 8.

functions required to serve each class, without consideration of what classes are actually driving and contributing to the balances in the NFCA and CFCA and by how much. There is no reason to change the current ECPT allocation of the NFCA and CFCA as it continues to be the most fair methodology.

If SoCalGas and SDG&E are interested in pursuing a more specific allocation of the NFCA and CFCA, they can explore customer class subaccounts for the NFCA and CFCA in the next BCAP. With subaccounts, the specific customer class contributions to the account balances can be tracked and allocated accordingly.

DRA recommends no changes to the existing ECPT allocation methodology of the NFCA and CFCA. The SoCalGas and SDG&E proposal in this regard should be rejected.

1		QUALIFICATIONS AND PREPARED TESTIMONY
2		OF
3		JACQUELINE GREIG
4 5 6 7	Q.1. A.1.	Please state your name and address. My name is Jacqueline Greig. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.
8 9 10 11 12	Q.2. A.2.	By whom are you employed and in what capacity? I am employed by the California Public Utilities Commission as a Public Utilities Regulatory Analyst V in the Cost of Service and Natural Gas Branch of the Office of Ratepayer Advocates (DRA).
13 14 15	Q.3. A.3.	Please provide a brief description of your educational background and professional experience. I graduated from San Francisco State University in December 1987,
16 17 18 19 20 21	A.3.	with a Bachelor of Science degree in International Business. I have completed Graduate Economics courses at San Francisco State University. I was employed by the Commission in 1988 in DRA for seven years. After a departure from 1995-1999, I re-joined the Commission in 1999 in DRA.
22 23 24 25 26 27 28 29 30		I have worked on electric, telecommunications, and primarily gas industry issues. My responsibilities have included sponsoring reports/testimony in many proceedings, such as, reasonableness reviews, capacity brokering, infrastructure expansions, incentive ratemaking, BCAPs, gas industry OIRs and OIIs, and greenhouse gas/climate applications. I have served as project manager and witness for many natural gas proceedings and I have previously testified before the Commission.
31 32 33 34	Q.4 A.4	What is the area of your responsibility in this proceeding? I am sponsoring Exhibits 1 and 5 of DRA's Testimony in Phase II of this proceeding.
35 36	Q.5 A.5	Does this conclude your prepared direct testimony? Yes, it does.